

Message Text

LIMITED OFFICIAL USE

PAGE 01 LONDON 01532 01 OF 02 280425Z
ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-06 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 /082 W
-----071169 280519Z /21

R 271808Z JAN 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 2532
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
USMISSION USNATO
AMCONSUL BELFAST
AMCONSUL EDINBURGH

LIMITED OFFICIAL USE SECTION 01 OF 02 LONDON 01532

USEEC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY
DEPARTMENT PASS TREASURY AND LABOR

E.O. 11652: N/A
TAGS: EFIN, ELAB, ETRD, UK
SUBJECT: BRITISH STEEL -- THE ECONOMIC CONTEXT

REF: LONDON 1150

/

SUMMARY: THE PRESENT DIFFICULTIES FACING THE U.K. STEEL
INDUSTRY MUST BE VIEWED IN THE CONTEXT OF SEVERELY DE-
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 01532 01 OF 02 280425Z

PRESSED WORLD AND DOMESTIC DEMAND FOR STEEL AND THE IN-
HERENT CONFLICT FACED BY EVERY NATIONALIZED INDUSTRY BE-
TWEEN COMMERCIAL PROFITABILITY AND THE NEED TO RESPOND
TO THE SOCIAL AND POLITICAL IMPERATIVES OF THE GOVERN-
MENT OF THE DAY. IN A PREVIOUS MESSAGE (LONDON 1150) THE
EMBASSY TOUCHED ON SOME OF THE TENSIONS AFFECTING THE
BRITISH STEEL CORPORATION (BSC) AND ITS EMPLOYEES. BUILD

ING ON THAT INFORMATION, THIS MESSAGE WILL DEAL BRIEFLY WITH THE ECONOMIC FACTORS LIKELY TO INFLUENCE THE BARGAINING PROCESS CURRENTLY IN TRAIN OVER WAGES, RATIONALIZATION AND THE EVOLUTION OF THE CURRENT PAY ROUND. END SUMMARY

1. WHILE THE STRUCTURAL PROBLEMS OF THE BRITISH STEEL INDUSTRY ARE LONGSTANDING, UNTIL 1974 IT HAD BEEN GENERALLY POSSIBLE TO HIDE THEM BEHIND BUOYANT DEMAND FOR STEEL, BOTH IN THE UK AND ABROAD. WHEN OPERATING OVER 90 PERCENT OF CAPACITY, EVEN BRITISH STEEL WAS ABLE TO BREAK EVEN. PRESSURES FOR RATIONALIZATION (INVOLVING

EDUCED MANNING LEVELS AND CLOSURES OF INEFFICIENT PLANT COULD BE DEALT WITH OVER THE LONGER TERM. OVER THE PAST 3 YEARS, SHARPLY DECLINING DEMAND MADE IT IMPOSSIBLE TO DELAY ACTION TO CORRECT THE MAJOR STRUCTURAL PROBLEMS. INCREASINGLY SAVAGE COMPETITION IN BOTH DOMESTIC AND OVERSEAS MARKETS MEANT THAT EVEN THE MOST EFFICIENT SEGMENTS OF BRITISH STEEL WERE NO LONGER GENERATING THE PROFITS NEEDED TO HELP SUBSIDIZE BSC'S MANY SMALL-SCALE, OVERMANNED, AND ISOLATED PLANTS WHICH WOULD LONG SINCE HAVE BEEN CLOSED WERE IT NOT FOR STRONG PRESSURES FROM THE AFFECTED COMMUNITIES AND THE UNDERSTANDABLE COMMITMENT ON THE PART OF A LABOR GOVERNMENT TO KEEP PLANTS OPEN FOR SOCIAL AND POLITICAL REASONS.
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LONDON 01532 01 OF 02 280425Z

2. HOWEVER, THE FINANCIAL HEMORRHAGING EXPERIENCED BY BSC OVER THE PAST 18 MONTHS REACHED PROPORTIONS WHICH THREATENED TO UPSET THE GENERAL FISCAL AND MONETARY STANCE SO CAREFULLY DESIGNED BY HMG TO SUSTAIN THE STILL FRAGILE FINANCIAL STABILITY AND SENSE OF CONFIDENCE WHICH HAS GROWN UP OVER THE PAST YEAR. IN THE CURRENT FISCAL YEAR (1977-78), GOVERNMENT FINANCING OF BSC'S CAPITAL REQUIREMENTS ABOVE AVAILABLE INTERNAL RESOURCES IS PUT AT 946 MILLION POUNDS. THIS REPRESENTS ABOUT 15 PERCENT OF THE PROJECTED PUBLIC SECTOR BORROWING REQUIREMENT. A FURTHER 835 MILLION POUNDS IS BUDGETED FOR THE COMING FISCAL YEAR, (78-79). GIVEN THE MAGNITUDE OF THESE FIGURES, RESPONSIBILITY FOR MANAGING THE STEEL CRISIS HAS SHIFTED AWAY FROM THE IMMEDIATE PARTICIPANTS -- BSC AND THE STEEL UNIONS, PACED BY THE DOMINANT IRON AND STEEL TRADES CONFEDERATION (ISTC) -- AND TOWARD THE CABINET AND TO A LESSER DEGREE THE PARLIAMENT. (WE UNDERSTAND THAT SERIOUS CONSIDERATION IS BEING GIVEN TO THE IDEA OF A MAJOR CAPITAL RESTRUCTURING BY WHICH HMG WOULD WRITE OFF SOME CONSIDERABLE PROPORTION OF BSC'S DEBT TO THE GOVERNMENT.)

3. SUPERIMPOSED ON ALL OF THIS IS THE CURRENT PAY ROUND WITH ITS 10 PERCENT GUIDELINE FOR AVERAGE EARNINGS. WIT ITS PRESENT LEVEL OF RED INK, IT IS NOT SURPRISING THAT BSC SHOULD BE TRYING TO MINIMIZE WAGE COSTS OVER THE COMING 12 MONTHS. THE ECONOMY IS LIKELY TO EXPERIENCE

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LONDON 01532 02 OF 02 280429Z
ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-06 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 /082 W
-----071297 280520Z /21

R 271808Z JAN 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 2533
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
USMISSION USNATO
AMCONSUL BELFAST
AMCONSUL EDINBURGH

LIMITED OFFICIAL USE SECTION 02 OF 02 LONDON 01532

RELATIVELY BUOYANT GROWTH IN 1978, AND THE DOMESTIC DEMAN FOR STEEL, PARTICULARLY FROM THE CAPITAL GOODS AND CON-
STRUCTION SECTORS, SHOULD RECOVER FROM CURRENT LEVELS.
TO MAKE A NOTICEABLE DENT IN CURRENT LOSSES, BSC WILL
HAVE TO TAKE FULL ADVANTAGE OF THE INCREASE IN DEMAND AND
IMPROVE ITS PRODUCTIVITY. THIS IMPLIES INCREASING THE
CLOSURE RATE OF INEFFICIENT PLANTS, REACHING EQUITABLE

AGREEMENTS WITH AFFECTED WORKERS ON THE SIZE OF SEVERANCE
PAYMENTS (RUNNING ANYWHERE FROM SEVERAL MONTHS TO 2 YEARS
WAGES), AND HOLDING WAGE INCREASES UNRELATED TO PRODUC-
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 01532 02 OF 02 280429Z

TIVITY GAINS FOR THE REMAINING LABOR FORCE TO A MINIMUM.

4. THESE AIMS CLEARLY CONFLICT WITH THOSE OF THE UNIONS
REPRESENTING THE STEEL WORKERS (REFTEL) WHO SUSPECT BSC O
ACTING AS A SURROGATE FOR HMG IN ATTEMPTING TO IMPOSE A
SETTLEMENT LESS THAN THE 10 PERCENT GUIDELINE. THE UNION
UNDERSTANDABLY OBJECT TO BEING MADE TO BEAR WHAT, TO THEM
APPEARS TO BE A DISPROPORTIONATE SHARE OF THE ADJUSTMENT
BURDEN, BOTH IN TERMS OF A SMALLER WAGE INCREASE AND SUB-
STANTIAL LAY-OFFS. NEVERTHELESS, ANY OBJECTIVE ECONOMIC
ANALYSIS COULD NOT AVOID THE CONCLUSION THAT CURRENT MAN-
NING LEVELS EXPLAIN/MUCH OF BSC'S POSITION AS A HIGH COS
STEEL PRODUCER. BSC'S PARLOUS FINANCIAL CONDITION IS
CLEARLY A COMPLICATING FACTOR IN ITS CURRENT SPARRING
WITH THE UNIONS. YET, THE GOVERNMENT MAY ALLOW BSC TO
AGREE TO POSSIBLY AS MUCH AS A 10 PERCENT WAGE INCREASE,
WITH THE UNIONS COOPERATING BY ALLOWING A SUBSTANTIAL
REDUCTION (NEAR THE 25,000 FIGURE CONSIDERED NECESSARY
BY BSC) IN THE LABOR FORCE. WHATEVER THE ULTIMATE OUT-
COME OF THESE NEGOTIATIONS, IT IS NOT LIKELY TO EXCEED
THE GOVERNMENT'S PAY GUIDELINE NOR WILL IT PROVIDE MUCH
AMMUNITION FOR OTHER NEGOTIATIONS WITH PUBLIC SECTOR
UNIONS.

BREWSTER

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: STEEL, INDUSTRY, ECONOMIC CONDITIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 27 jan 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LONDON01532
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780042-0235
Format: TEL
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780115/aaaaamam.tel
Line Count: 204
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 6fb070df-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 LONDON 1150
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 24 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3702221
Secure: OPEN
Status: NATIVE
Subject: BRITISH STEEL -- THE ECONOMIC CONTEXT
TAGS: EFIN, ELAB, ETRD, UK
To: STATE USEEC MULTIPLE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/6fb070df-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014